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Monday, April 18, 1988

153rd Year

Today

The California Assembly has tabled a bill that would allow out-of-state banks to bid on California institutions if foreign interests are trying to acquire them. The action is a blow to money center banks hoping to break into that market. **2**

A nomination from the floor shook up the 87th annual meeting of the Conference of State Bank Supervisors. New York's Jill M. Considine was nominated by a faction of members urging more innovation within the trade group and elected vice president on a 22-15 vote. **2**

Thrift regulators have pushed back the target date for the first rescue to be completed under the so-called Southwest plan. **2**

Chase Manhattan Corp.'s \$120 million pretax profit from its \$2.8 million investment in Cain Chemical Inc. is the kind of earnings boost it hopes to realize from its new North American equity unit. **2**

Financial Corporation of America's executives received substantial pay raises in 1987, despite the company's worsening financial condition. **12**

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COMMENT

Reading has lost much of its importance in America, but a good reading program enriches the bank's young blood, writes Dr. Paul S. Nadler. **4**

The United States' new status as the largest importer of capital portends slower growth (possibly a decline) in living standards and loss of political and financial leadership in the world, says H. Erich Heinemann. **4**

NEWS MONDAY

Manufacturers Hanover Corp. gave banking analysts some positive numbers to ponder and took some of the heat off John F. McGillicuddy, the corporation's chief executive officer, as he prepares for the annual meeting. The story, by Bart Fraust, introduces an *American Banker* feature called Perspective, which will provide an in-depth look at an issue in the news. **7**

Legal fees are the fastest-growing operating expense at the nation's 511 insolvent savings and loans, up more than 450% since 1984, according to the Bank Board. **8**

U.S. banks appear to be handicapping the presidential race. At Sovran Bank, Rep. Jack Kemp was good for hefty lines of credit at prime plus one percentage point. But Democratic contender Sen. Paul Simon borrowed at prime plus two. **9**

Worth Repeating

The foreign banks were let in to help bring Spanish banks into the 20th century.

Wallace Reynolds, general manager of the Morgan Guaranty Trust Co. in Madrid. [Page 1]

AN AMERICAN BANKER SPECIAL REPORT

Spanish Bankers Challenging Dominance of Foreign Firms

By JOHN J. DUFFY

MADRID

When foreign banks began flocking to Spain after 1979, they were drawn by more than the sunshine and the sangria. More compelling were the profit margins in Spanish wholesale lending — huge by Euromarket standards — and the lack of strong domestic competition.

"We had a business that was very simple," said Elizabeth Stroebel, a vice president at Chemical Bank in Madrid. "We borrowed in the interbank market and lent to public companies at healthy spread over the interbank rate. The overhead costs were small, and the margins were very nice."

For the Spanish government, opening the door to foreign banks in 1979 was partly a response to the banking crisis of the late 1970s and early 1980s. Between 1977 and 1983, 50 banks —

Madrid:

Foreign bankers feel the squeeze as Spanish banks gear up for 1992.



20% of the financial system — failed because of bad loans, many to their own subsidiaries. To defray the mas-

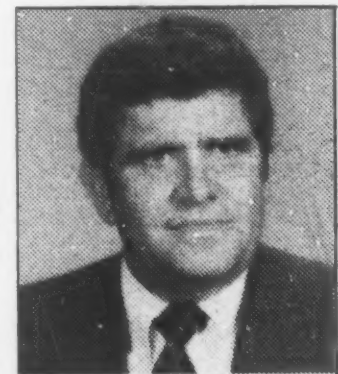
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Nebraska Banker Nominated to ABA Post

By ROBERT M. GARSSON

Washington Bureau

WASHINGTON — Nebraska banker C.G. "Kelly" Holthus has been nominated to become president-elect of the American Bankers Association when the industry trade group holds its annual convention in October.



C.G. Holthus

Mr. Holthus, president and 50% owner of First National Bank of York, York, Neb., beat out the chief executive officers of two other small banks: Alan R. Tubbs, president of First Central State Bank, DeWitt, Iowa; and Leon Patterson, chairman of the Palmetto Bank, Laurens, S.C.

The ABA's announcement that its nominating committee selected Mr. Holthus comes at a time of uncertainty for the ABA leadership. The group's president, Charles H. Pistor Jr., recently resigned as chairman and chief executive officer of the troubled First RepublicBank and as vice chairman of the bank's parent company.

Holthus: Page 6 ➔

First City Deal May Be in Peril, Regulators Fear

But Company Confident It Will Complete Rescue

By BARBARA A. REHM

Washington Bureau

WASHINGTON — Federal regulators said on Friday they were worried that the \$1.5 billion rescue of First City Bancorporation of Texas is in danger because of jittery investors. But First City predicted it would have cash in hand and a closed deal by Tuesday.

"We plan, and intend, to complete the transaction on Tuesday," said Jim Day, spokesman for the Houston-based bank holding company.

A group of private investors led by former Chicago banker A. Robert Aboud agreed in September to provide \$500 million in recapitalization for the company through a stock offering.

The deal included a contribution of almost \$1 billion from the Federal Deposit Insurance Corp. The rescue has been held up several weeks while First City tried to persuade bondholders to exchange their claims for 35 cents to 45 cents on the dollar. The deadline on the \$225 million of debt was extended last week — for the fifth time — until the close of business today.

First City also has lowered the minimum amount of debt that must be tendered to 70%, from 90%. First City reported last Friday that 66.1% of the debt had been turned in; the remaining 3.9% was expected by the end of today.

"The revised schedule will provide additional time to complete financing arrangements and to circulate addi-

Rescue: Page 2 ➔



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Reading Can Enrich the Bank's Young Blood

By DR. PAUL S. NADLER

A RECENT COLUMN pointed out the opportunity lost when banks do not orient new trainees in the operations and goals of the rest of the bank.

They often give these well-educated people tunnel vision by limiting the scope of their work and not offering occasions to meet people in the rest of the organization.

I suggested that new people attend a round-robin of luncheons where they could mingle with employees from different sections. I further proposed that these new employees write up a brief description of what other departments do, so that they can both learn about the rest of the bank and possibly provide fresh inputs to those who have been doing their jobs a certain way for a long time.

The result, it was hoped, would be that the young people would learn more and be more useful in the course of their day-to-day work once they understood where opportunities to help

existed. And as their knowledge grew, so would their potential for filling slots in other bank sections.

But such broadening need not be limited to new hires. Much can be gained from having all employees attend formal meetings or informal lun-



Nadler Says:

It is interesting how many younger people, new to the staff, have responded favorably to the idea of a formal reading program to help them grow.

cheons with people in other departments. All too often we find an employee who says, "I have forty years of experience," when really he has had one year of experience forty times.

The Value of Reading

If we are to upgrade the knowledge and usefulness of our employees, one area in which most banks could really improve procedures is through an agenda of reading relevant material offered to those who want to be more than just cogs in the wheel.

Reading has lost much of its importance in America. The average television is on six or seven hours a day. This helps explain why newspapers keep dying while TV stations sell for higher and higher prices. One comment heard regarding reading is that people don't read more than one page at a time because their lips get tired.

But to those who want to understand their bank and improve their positions in the organization, it would seem that a program of reading — taking up maybe one of the bankers' evenings a week — could do a great deal to enhance their value to the bank and to themselves.

What should people read and how should such a program be developed?

This is not an easy question.

Most bank officers feel they are besieged with articles, books, and memos. The saddest part is that once they are finished with a pile, they find they have read defensively in most instances: They have not learned much, but they have merely reassured themselves that they haven't missed anything new.

It is rather frustrating when you have read an entire article that takes 15 to 30 minutes and find that what you retain is the basic premise, which you could have gotten in seconds. That is why the news summary columns in newspapers like this one and *The Wall Street Journal* are so popular and important. They tell you that if your interest in a topic is only vague, you can get the substance of what you need to remember right now on the front page instead of having to dig in and read the entire article.

Still, how can we handle the problem of determining what to read and how to get it distributed?

As to what to read, this is not too hard a job in banking, despite all the material that is printed on the topic.

Obviously this newspaper and *The Wall Street Journal* are musts for any

banker who wants to be well informed. On top of this, the three major business magazines — *Business Week*, *Fortune*, and *Forbes* are felt to be useful by many bankers. So are the several national banking magazines, the regional banking magazines that serve the banker's territory, and the specialized journals for each department, like lending and operations.

Beyond this, it appears to this observer that seeing the various publications of the Federal Reserve banks and the monthly and quarterly letters issued by some major banks should fill the prescription.

But this is roughly 6 magazines, 12 or 14 bank reviews, and 2 newspapers — not to mention the daily newspapers of the bank's territory. Just carrying all these around, much less paying for them and finding time to read them, makes the suggestion of being fully informed through reading an onerous one.

Finding a Compromise

How can a reasonable compromise be reached between doing nothing and spending all your time reading — at the expense of having a life outside the bank and doing your job well?

One idea is to have one person responsible for keeping a folder of all these publications. Like a lending librarian, this person would send out a memo once a week on topics that appear interesting. Then officers interested in specific topics can borrow the particular magazine or article of interest. The memo could simply be a photocopy of the title pages of the magazines and letters that come in that week. By skimming the list of titles, bankers could at least be covered on articles relevant to their work.

In a larger bank, isn't it possible to have a young trainee summarize the articles that appear each week, just as this paper and *The Journal* summarize the contents of the issue? This would be tremendously valuable for the employee who is trying to learn banking and would serve as a real time saver for the rest of the bank.

Carried further, a bank could arrange a weekly or monthly informal luncheon for those who have no business guests that day at which articles of the previous week or month could be discussed. It doesn't take much to formalize the topic of conversation in the lunchroom or wherever bankers go in groups of five or six to have a bite. So instead of discussing the ball scores, the ideas of recent articles could be summarized and discussed.

Most top-level bankers must be laughing at this article already. They feel they already have too much to do without adding a reading program. But it is interesting how many younger people, new to the staff, have responded favorably to the idea of a formal reading program to help them grow.

All it needs is top management's endorsement to organize an informal structure. Then those who want to undertake a reading program that is efficient can go on independently — helping others who want to join and not bothering those who feel too busy to participate.

For those who do join, a formal program could provide useful information about what is going on outside the bank. At the same time it may eliminate that gnawing feeling so many of us have that there are ideas coming out we should know about, but somehow we haven't found time to dig up the articles and read what they are all about. ■

OVERVIEW

Trade Figures Foreshadow Life In the Slow Lane

By H. ERICH HEINEMANN

WALL STREET was shocked last week by an unexpected slump in U.S. foreign trade. According to the Commerce Department, the raw, unadjusted deficit in U.S. merchandise trade hit \$13.8 billion in February, up from \$12.4 billion in January. Seasonally adjusted, the deterioration was worse — \$16.2 billion from \$11.8 billion.

Reaction in the financial community was not pretty. Values of financial assets crumbled across the board. The Dow Jones industrial average dropped 101 points in active trading, and the U.S. dollar posted one of its largest one-day declines on record.

The episode brought the ugly realities of America's international position into sharp relief. The United States, once the world's largest exporter of capital, is now the biggest importer (\$3.25 billion per week), as well as the largest debtor. This change portends basic, long-run changes in American society: slower growth (possibly decline) in living standards and loss of political and financial leadership in the world.

On a more parochial level, the good news is that U.S. manufacturing will enjoy a renaissance, as the declining dollar acts to reduce the relative real wages of American workers well below those of their counterparts in Japan and Europe. The bad news is that the center of gravity in world financial markets will increasingly shift toward Tokyo and away from New York. The major money center banks in the U.S. are well past their zenith.

As the White House admitted, last week's trade figures represented "discouraging" news. Nonetheless, Wall Street badly overreacted. U.S. exports have been moving up steadily for the past 18 months. Growth in the unit volume of imports has slowed way down — though admittedly this improvement does not show up in the monthly trade figures, which are reported in current dollars.

Despite the February setback, strong economic growth abroad and the decline in the dollar mean that a much lower trade deficit is likely. The reaction last week to the trade figures was badly exaggerated. However, it was ample warning of longer-run dangers lurking in the massive imbalance in U.S. international transactions. Briefly, these are:

- The Federal Reserve System may try to defend the sagging dollar by propping up its value in world financial markets. Should policymakers follow this course (as they did last week), the Fed would tighten its policy even more than it has already. The economy could tumble into an unintended, unnecessary recession.

- Congress may be provoked into actually passing the protectionist trade legislation that it has been debating for the past three years. Unfortunately, there is no quick fix for the problem. In fact, such a bill would not only be futile, it would also make the job of rebuilding U.S. exports more difficult. Even so, the Democratic leaders in Congress seem determined to press ahead.

Moreover, if the trade measure were to include restrictions on foreign investment in the United States (several such provisions are under discussion), participants in the foreign exchanges could provoke a major crisis. Long before the Fed would be able to bring the dollar under control, the currency would be sharply lower and U.S. inter-

Overview: Page 6 ➡

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Handicapping the Candidates

Lending's Lucrative to the Presidential Contenders

By ROBERT M. GARSSON

ARE the nation's banks handicapping the presidential race? At Washington's Sovran Bank/D.C. National, Rep. Jack Kemp, R-N.Y., was good for hefty credit lines at prime plus one percentage point. But Sen. Paul Simon, D-Ill., borrowed at prime plus two.

Adams National Bank in Washington also loaned money to Mr. Simon at prime plus two, for an effective rate of 10.5%. But the bank advanced cash to Jesse Jackson at a fixed rate of 11.5%.

The prime rate is the base rate used by banks to price commercial loans. Though banks used to say it was reserved only for their most creditworthy customers, lenders routinely extend credit to good customers at sub-prime rates. The premium other borrowers pay over prime is largely based upon a bank's view of their creditworthiness.

Among loans to presidential candidates, the difference in terms suggests that Sovran perceived Mr. Kemp as a one percentage point favorite over Mr. Simon — if not to win the White House, than at least to make good on his debts. "Don't even suggest that," said Robert P. Pincus, president of Sovran's Washington bank subsidiary. Lower rates, he said, "are a reward for the relationship" a campaign organization has with the bank.

Mr. Pincus said the pricing decision was based on three factors: the level of deposits the organization maintains, which the bank weighs at 60%; the term of the loan, weighed at 20%; and risk, which accounts for the last 20%.

BARBARA D. BLUM, president and chief executive officer of Adams National, agreed. "The terms of the loan, the depository relationship" are key factors, she said. Risk is virtually nonexistent since the loans are secured by federal matching funds, she said.

However, experts on loan pricing suggest that the premiums charged to the Simon and Jackson campaigns represent some-

distinctions between fixed- and variable-rate pricing.

The one-percentage-point difference between the rates given Mr. Simon and Mr. Kemp are substantial, but "not outside the realm of what is normal" for similar credit risks, he said. However, Loan Pricing's data does suggest that almost all of the candidates are borrowing at premium rates.

An "average-risk loan" of \$1 million to \$3 million is generally

Albert Gore Jr., D-Tenn., leaked the story to *The Times*.

If so, it may be poetic justice that the campaign loans now raising the most eyebrows are those extended to the long-shot Gore campaign.

Mr. Gore has not yet filed reports listing the loans and their terms, but his campaign confirmed to a reporter from *The Wall Street Journal* that he has borrowed \$1.45 million, generally without collateral.



“Everybody is going to want to be in this business once they figure out how good it is.”

— Barbara D. Blum, president and chief executive officer of Adams National Bank

priced at prime plus 50 basis points, Mr. Bumcrot said. With up-front fees added in to calculate an "all-in rate," such loans carry an average interest rate of prime plus 75 basis points.

Using that standard, two early presidential dropouts — former Delaware Gov. Pete DuPont, a Republican, and former Arizona Gov. Bruce Babbitt, a Democrat — showed the keenest negotiating skills. Both tied down loans at prime plus 50 basis points.

The worst negotiators apparently were in the campaigns of Mr. Jackson and former Secretary of State Alexander M. Haig. If Mr. Haig honed his negotiating skills while at the State Department, they appeared to be of little help in dealing with the banks: The 12% he is paying Olympic International Bank & Trust Co., Boston, is the highest rate in the field.

BANKS that lend to presidential campaigns can expect to be in the limelight, and this year is no exception. The first bank to come under scrutiny was Washington-based Federal City National Bank, whose chairman, Terrence R. McAuliffe, a Washington lawyer, was national finance chairman and chief fund raiser for the campaign of Rep. Richard Gephardt, D-Mo.

A story in *The New York Times* charged that the bank had made unsecured loans to the Gephardt campaign, an allegation Mr. McAuliffe disputes.

"It was 100% protected at all times," he said. "We had the first security interest in federal matching funds."

An earlier loan of \$125,000 to the Gephardt campaign is listed as unsecured in the campaign's Federal Election Commission filings, but Mr. McAuliffe said the campaign maintained a deposit account with an average balance of \$360,000. The terms of the loan did not permit that account to be drawn down while the loan was outstanding.

A second loan of \$1.4 million exceeded the bank's lending limit, but the institution had an agreement with another bank, which Mr. McAuliffe refused to name, to buy \$1 million of the loan.

Mr. McAuliffe, an old hand in Democratic campaign circles, charged that supporters of Sen.

ness and — more important — its ability to pay its debts.

As it stands, Mr. Gore is on the verge of losing his eligibility for matching funds. Because he failed to win 10% of the votes in two consecutive primaries, he must win 20% of the ballots in New York on Tuesday to continue receiving federal money. Mr. Gore's last certification, on March 30, was for only \$117,312, the lowest of any candidate except Mr. Simon, who has suspended his campaign.

Should Mr. Gore drop out of the campaign, however, he would still be eligible for matching funds to pay campaign debts and for "winding-down" costs. The Gore campaign did not return calls for comment.

COLLATERAL is a critical issue for banks that lend to presidential campaigns. Banks and other corporations are barred by law from contributing money to political campaigns, and a loan that is not repaid could be interpreted by the FEC as an illegal donation.

Generally, the Election Commission requires that loans be made in the "ordinary course of business," which is to say, that they be made on the same terms that would be extended to any other customer. There must be a written loan document showing, among other things, the date on which the loan is due and the interest rate. Finally, the lending institution must be assured of repayment.

How a lender can be assured of repayment has been the stumbling block so far. In a case involving the failed 1984 presidential bid of Sen. John Glenn, D-Ohio, for example, the FEC even studied polling data before concluding that four Ohio banks es-

entially made a poor business judgment in extending loans of \$2 million. In that case, the Glenn campaign was assessed a small fine. The loans are still outstanding.

IN most cases, the loans are secured by matching federal funds, which are predictable in advance. Banks generally loan only a percentage of the amount anticipated in matching funds. Adams National will advance up to 80% of the campaign's previous month's submission to the FEC, for example, and the loan is paid off as soon as funds are won from Treasury.

"The monies come directly to the bank," said Mr. Pincus. The old loan is paid off and a new loan is made based upon the pending applications for matching funds. (Candidates can apply for matching funds on the second and fourth Mondays of each month.)

Opportunities to lend money to presidential campaigns only come along once every four years, but while the window is open, business couldn't be better, say the bankers who advance funds to would-be presidents.

"Everybody in the country is going to want to be in this business once they figure out how good it is," said Adams National's Ms. Blum, a former Carter administration official. In addition to being good credits in their own right, she said, campaign loans tend to bring other business into the bank.

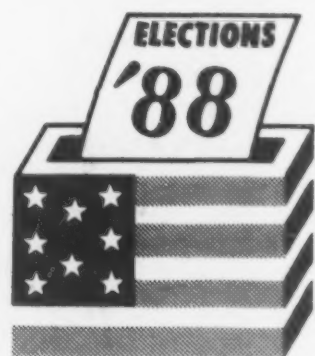
"We made a loan to Jackson in 1984, and we've had a very pleasant relationship since," she said. Mr. Jackson's Rainbow Coalition opened accounts, as did other nonprofit organizations with ties to the Jackson camp.

"They have been wonderful accounts," she said.

Bank Lending Along the Campaign Trail

Candidate	Lender	Amount/Terms	Status
Bruce Babbitt	Valley National Bank	Two credit lines, \$750,000 total, Prime + 1/2, secured	
George Bush	Sovran Bank/D.C. National	\$50,000, Prime + 1, secured	Repaid March 9, 1987, less than a month after loan taken
Richard Gephardt	Federal City National Bank, Washington	\$125,000, secured, 8.75% and \$1.4 million, secured, 9.75%	\$1 million sold through a loan participation agreement.
Albert Gore	Sovran Bank/D.C. National Union Planters Bank, Memphis Bank of Putnam County, Monterey, Tenn., Volunteer State Bank, Portland, Tenn., Bank of Huntingdon, Tenn.	\$750,000. \$400,000, Prime plus 1 Each \$100,000	Borrowed heavily in March for Southern regional primary and again for New York primary. Report due April 20 should detail loans.
Jack Kemp	Sovran Bank/D.C. National	Numerous loans through two credit lines. Prime + 1, secured.	Total loans of \$2.45 million in 1987 and \$750,000 in 1988. Repayments total \$3,050,000 through end of February.
Pat Robertson	Sovran Bank/Chesapeake	\$7.4 million in loans in 1988. Prime +1, secured.	At least \$1.5 million repaid through February, 1988.
Paul Simon	Sovran Bank/D.C. National First National Bank of Collinsville, Ill. First National Bank of Chicago Adams National Bank, Washington	\$885,296, prime + 2, secured. \$45,000 secured by Mr. Simon. Prime. \$300,000. Prime + 2 secured. \$1 million (repaid). Prime + 2, not secured. \$523,674 (\$110,000 repaid.)	\$1 million Adams National loan exceeded bank's loan limit, and \$250,000 was upstreamed to holding company as a result, according to bank officers.
Alexander Haig	\$340,000. Olympic International Bank, Boston	\$340,000, 12%.	Revolving credit line
Pete DuPont	Wilmington Trust Co.	\$828,000. Prime + 1/2, secured.	Campaign used controlled disbursement account to limit borrowings.
Jessie Jackson	Adams National Bank Independence Bank of Chicago	\$500,000, secured at 11.5% \$50,000 unsecured, 9%	

Loan amounts are reported differently by each campaign and subject to some interpretation. Most often, however, the amount shown in the table represents a credit line that is drawn down and repaid regularly as federal matching funds are received. In the Haig campaign, for example, the \$340,000 shown above was drawn down and repaid several times over. Source: Federal Election Commission filings and interviews with bank lenders for all except Gore campaign, where figures are based on newspaper reports and information provided by Union Planters Bank.



thing other than a credit for a good relationship.

"We believe it depends upon the negotiating skills of the borrower," said Christopher Bumcrot, senior vice president of Loan Pricing Corp., a New York-based firm that studies the commercial loan market.

In particular, he said, the Jackson loan — which is equivalent to prime plus three percentage points — "is a little on the high side."

Borrowers ordinarily pay a premium for fixed-rate interest, which shields them against interest rate spikes over the life of the loan. In the case of campaign loans, though, maturities are so short as to make irrelevant any